

Minutes of the
Board of Water and Natural Resources
Telephone Conference Call Meeting
523 East Capitol
Pierre, South Dakota

November 24, 2008
9:00 a.m. CST

CALL TO ORDER: The meeting was called to order by Chairman Brad Johnson. A quorum of the board members participated.

BOARD MEMBERS: Brad Johnson, Kelly Wheeler, Gene Jones, and Don Rounds.

BOARD MEMBERS ABSENT: Dale Kennedy and Don Bollweg.

OTHERS: Dave Templeton, Jim Feeney, Elayne Lande, David Ruhnke, and Mike Perkovich, Department of Environment and Natural Resources; Bruce Bonjour, Perkins Coie, LLC; Monique Spyke and Jessica Cameron, PFM; Kristi Wiederrich and Bert Olson, First National Bank in Sioux Falls; and Representative Russell Olson, Legislative Oversight Committee member.

APPROVE AGENDA: Chairman Johnson approved the agenda.

MBIA DOWNGRADE RELATING TO 2008 INVESTMENT AGREEMENT INC 1592: Jim Feeney reported that the State Revolving Fund programs invest money in Guaranteed Investment Contracts (GIC). Two of the GICs are invested with MBIA, Inc. In June 2008, Moody's Investors Service downgraded MBIA to A2 from Aaa, which was below the minimum Moody's rating allowed under the terms of GICs.

The terms of the 2008 contract gave MBIA several options to provide additional security for the GIC. After unsuccessfully trying to assign the GIC to another provider, MBIA decided to collateralize the GIC. Staff began working with the SRF financial team to accomplish this. The 1996 contract was less detailed, but working through PFM and bond counsel, acceptable collateralization terms were negotiated with MBIA.

In September 2008, the board approved the steps taken to collateralize the GICs held by MBIA and AIG, and authorized staff to proceed as needed to complete the collateralizations.

On November 7, 2008, MBIA was further downgraded to Baa1. Under the terms of the 2008 GIC agreement, MBIA, at the direction of the South Dakota Conservancy District and the Trustee, must assign the GIC to another provider, find an alternative guarantor, or terminate the GIC at market value. Based upon the lack of availability in the current market for either of the first two options, the GIC will be terminated. To accomplish this, a market value of the GIC must be established through negotiations with MBIA.

Staff discussed this matter with the SRF financial team on November 20, 2008. Due to concerns with any further deterioration in the credit standing of MBIA, the consensus was that the most important issue is to preserve the capital of the SRF program. Currently, approximately \$45.85

million is invested in the 2008 GIC, making it the largest of the GICs. It is anticipated that MBIA will pay a "Make Whole Amount" as part of the termination. PFM's recommendation was that the Conservancy District proceed immediately to terminate the 2008 GIC, requiring the corpus of approximately \$45.85 million plus any accrued interest earnings to be returned while continuing to negotiate with MBIA to determine the correct "Make Whole Amount."

The 1996 GIC contract does not address a further downgrade so no additional action is available to the board. The \$7.3 million 1996 GIC is fully collateralized with government securities in a Wells Fargo account in the name of the SRF Trustee – The First National Bank in Sioux Falls. Counsel and financial advisors indicated that this is the only contractual option available to the program under the 1996 GIC, but that MBIA's obligations to the program constitute secured debt and that the SRF program's financial interests are reasonably protected. However, the availability of funds under the 1996 GIC may be interrupted in the event of liquidation or reorganization proceedings, and other challenges to our access to the funds could be asserted. This would be a minor concern given the program's strong cash flow.

Mr. Feeney recommended that the board authorize staff to work with the SRF financial team to take all steps necessary to terminate the 2008 GIC and reinvest those proceeds.

Monique Spyke, PFM, discussed the termination of the investment agreement.

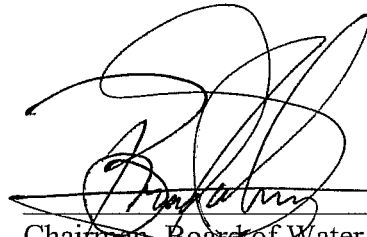
Bruce Bonjour explained the resolution.

Motion by Wheeler, seconded by Jones, to adopt Resolution #2008-87 authorizing the termination of the MBIA agreement. A roll call vote was taken, and the motion carried unanimously.

ADJOURN: Motion by Jones, seconded by Wheeler, that the meeting be adjourned. Motion carried.

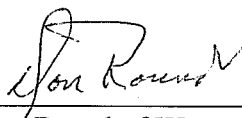
Approved this 8th day of January 2009.

(SEAL)



Chairman, Board of Water
and Natural Resources

ATTEST:



Secretary, Board of Water
and Natural Resources